

C A L I F O R N I A

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Alfalfa Hay Update

by Seth Hoyt, USDA California Agricultural Statistics Service

Growers in California intended to plant 1,650,000 acres in hay in 2006, up 6.5 percent from 2005. This compares to 1,750,000 hay acres in 2002, the last year hay acres were higher than the previous year in California. While the March planting intention report is a good test of year-to-year trends, you can't bet the farm on the March hay number being the same as the final estimate for the year. In 2005, final all hay acres were estimated in December at 1,550,000, down 50,000 acres from the March report. In 2004, the final estimate of 1,600,000 acres was 120,000 higher than the March planting intention report.

A better indicator of hay acres in California will come in the June acreage report when alfalfa and other hay are reported separately. In the scenario that the entire 100,000 acre increase in the March planting intention report is alfalfa hay, it would put alfalfa hay 10 percent higher than 2005. All hay planting intentions in the seven western states were up three percent from 2005. Taking out California, the other six western states were up only one percent.

It's not a question if all hay acres will be up in California in 2006; it's a question of how much? With challenges planting alfalfa a year ago, and with final California alfalfa hay acres in 2005 estimated at 1,000,000, the lowest since 1997, demand outpaced alfalfa hay supplies.

Alfalfa hay prices in 2005 not only soared to record highs, but were \$30.00 per ton above the previous highs on Premium and Supreme quality. One million acres of alfalfa hay will not sustain 1,780,000 dairy cows in California, not including dairy replacement heifers and other outlets. That is why 2005 alfalfa hay shipments into California from out-of-state were the highest since 1998, and hit a record high in January 2006 of 93,749 tons--22 percent above January 2005. Utah shipments were up 34 percent and Nevada was up 24 percent from last year.

Continued on Page 5



California Department of Food and Agriculture
A.G. Kawamura, Secretary

Production, Prices, Quota Transfers, Alfalfa

March Milk Production

Milk production in California for March 2006 totaled 3.42 billion pounds, up 6.2 percent from March 2005. USDA's estimate for U.S. milk production for March 2006 in the 23 major dairy states is 14.6 billion pounds, up 5.5 percent from March 2005. Production per cow in the 23 major states averaged 1,773 pounds for March, 66 pounds more than March 2005. ☀

Minimum Class Prices

Statewide average hundredweight prices

Class	March	April	May
1	\$13.33	\$12.67	\$12.47
2	\$12.78	\$11.25	\$11.25
3	\$12.62	\$11.08	\$11.08
4a	\$10.19	N/A	N/A
4b	\$10.49	N/A	N/A

Federal Order and California Minimum Class 1 Prices

Average Hundredweight Prices

Regions	Mar	Apr	May
Phoenix, Arizona	\$14.84	\$13.57	N/A
Southern California	\$13.46	\$12.80	\$12.61
Portland, Oregon	\$14.39	\$13.12	N/A
Northern California	\$13.19	\$12.53	\$12.33
Boston (Northeast)	\$15.74	\$14.47	N/A

Quota Transfer Summary

For March 2006, three dairy producers transferred 1,824 pounds of SNF quota. March quota sales averaged \$491 per pound of SNF (without cows), average ratio of 2.40. For April 2006, there were no quota transfers to report. ☀

Alfalfa Update: April

Northern California: Supreme alfalfa was steady in light test with moderate demand and light supplies. Fair and Good alfalfa had limited test and light supplies. Retail and Stable hay was steady with moderate supplies and demand. Many areas are still very wet and/or flooded - some fields will have to be replanted. May see cutting of hay for areas where the fields have dried out.

Southern California: Supreme and Premium alfalfa was steady in light test with moderate demand and supplies. Fair and Good alfalfa had limited test with light demand and supplies. Retail and stable hay was steady with light to moderate demand. Exporters are starting to look for hay to buy. Weather conditions have been good for hay production and days are getting warmer. ☀

Supreme Hay Prices

Statewide average prices per ton

Area	3/31	4/7	4/14	4/21
Petaluma	N/A	\$190-210	\$195-205	N/A
North Valley ¹	\$205-210	\$200-215	\$190-215	\$185-210
South Valley ²	\$190-200	\$185-220	\$195-200	\$193-200
Chino Valley	\$175	\$175	\$165-172	N/A

¹ North Valley is Escalon, Modesto and Turlock areas.

² South Valley is Tulare, Visalia and Hanford areas.

Alfalfa Hay Sales/Delivery

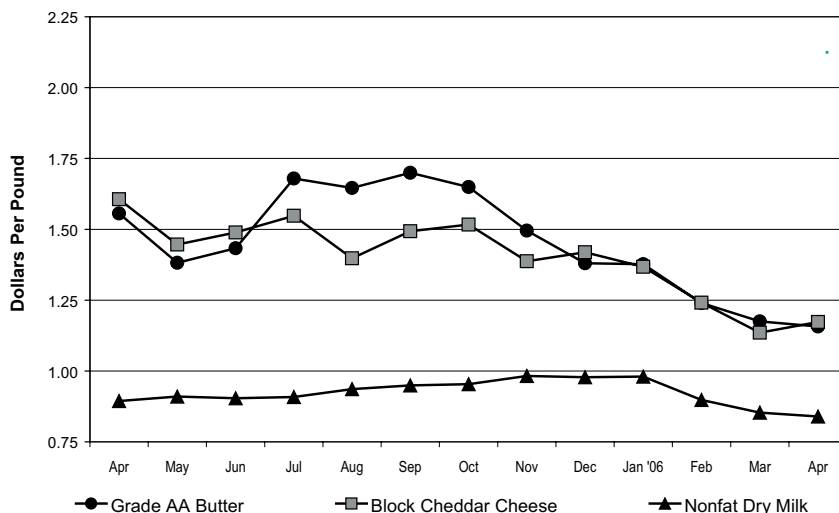
	March	April
Tons Sold ¹	62,744	86,430
Tons Delivered ²	38,368	40,650

¹ For current or future delivery.

² Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

Grade AA Butter, Block Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Class 1 Milk Prices




Johanns Releases National Animal Identification System Implementation Plan

Agriculture Secretary Mike Johanns announced the release of an implementation plan that outlines timelines and benchmarks for the establishment of the National Animal Identification System (NAIS), along with a plan for the initial integration of private and state animal tracking databases with NAIS. The implementation plan continues to set an aggressive timeline for ensuring full implementation of the NAIS by 2009. It establishes benchmarks for incrementally accomplishing the remaining implementation goals to enable the NAIS to be operational by 2007, and to achieve full producer participation by 2009. Several important components have already been accomplished. These include the development of premises registration systems in each State and the issuance of guidelines for the manufacture and distribution of animal identification numbers. More than 235,000 premises are currently registered.

USDA is also releasing today the general technical standards for animal tracking databases that will enable integration of private systems with the NAIS. Private database owners are invited to submit applications for system evaluation to USDA and offer feedback as the final technical requirements are established. USDA will then enter into cooperative agreements with owners of databases that meet the standards. The application for system evaluation and a draft cooperative agreement are available on the NAIS web site at www.usda.gov/nais.

By early 2007, USDA expects to have the technology in place, called the Animal Trace Processing System or commonly known as the metadata system, that will allow state and federal animal health officials to query the NAIS and private databases during a disease investigation. The animal tracking databases will record and store animal movement tracking information for livestock that state and federal animal health officials will query for animals of interest in a disease investigation.

The NAIS implementation plan, along with more information about the program, is available at www.usda.gov/nais. 


CWT Accepts More Export Bids for Butter, Cheese, Anhydrous Milk Fat, and NFDM

Cooperatives Working Together (CWT) announced that it has accepted more bids to help export cheese, butter, and nonfat dry milk (NFDM) products. CWT accepted bids to facilitate the export of butter: three from California Dairies of Artesia, CA, to export 100 metric tons (220,000 pounds) to Russia, 75 metric tons (165,000 lbs.) to Kuwait, and 200 metric tons (440,000 lbs.) to Turkey; and a bid from WestFarm Foods of Seattle, WA, to export 250 metric tons (550,000 lbs.) to Europe and Jordan; and a bid from United Dairymen of Arizona of Tempe, AZ, to export 20 metric tons (44,000 pounds) of butter to Mexico. These approved bids increase CWT's total exports of butter in 2006 to 1,941 metric tons (4.27 million lbs.).

Additionally, CWT accepted three bids from Humboldt Creamery of Fortuna, CA, to export whole milk powder: 600 metric tons (1,320,000 lbs.) to Turkey; 20 metric tons (44,000 lbs.) to Mexico; an additional 20 metric tons (44,000 lbs.) to Viet Nam, and 108 metric tons (237,600 pounds) of whole milk to Guatemala. This is the first CWT-assisted export destined for Guatemala. This is also the first export of whole milk powder facilitated by CWT since that product was approved for export earlier this month under CWT's rules.

CWT also accepted a bid from California Dairies of Artesia, CA, to export 86.5 metric tons (190,300 pounds) of anhydrous milk fat to Mexico. This is the first-ever bid of anhydrous milk fat.

CWT also accepted a bid from Dairy Farmers of America of Kansas City, MO, to export 18 metric tons (39,600 pounds) of Cheddar cheese to Indonesia. This approved bid increases CWT's total cheese exports in 2006 to 1,092 metric tons (2.4 million lbs.) of cheese.

Previous shipments facilitated by CWT's export assistance program have gone to Algeria, Barbados, Denmark, Egypt, Honduras, India, Indonesia, Israel, Japan, Jordan, Mexico, Morocco, the Netherlands, Panama, Saudi Arabia, South Korea, Taiwan, Trinidad, Tunisia, Turkey and Viet Nam. 

National Dairy Situation and Outlook – USDA Estimates

Milk Production and Cow Numbers

Monthly: Compared to 2004, USDA estimates that overall milk production across the U.S. was up 4.9% in March, led by New Mexico's 15.1% growth in milk production (on 25,000 more cows and 130 more pounds per cow). California's estimated production was up 6.3% (on 40,000 more cows and 70 more pounds per cow). Among the western states, Arizona was up 5.6%; New Mexico up 15.1%; and Washington was down -2.5. One of the top 10 states reported a production decrease.


Quarterly: For the first quarter of 2006 compared to the fourth quarter of 2005, U.S. milk cow numbers increased to 9.090 million, production per cow was up 4.1%; the net effect was a 4.3% increase in milk production to 45.6 billion pounds. USDA projects that for the second quarter of 2006 compared to the first quarter of 2006, U.S. milk cow numbers will increase 20,000 cows to 9.110 million cows, production per cow will up 130 pounds per cow; the net effect would be an increase in milk production to 46.9 billion pounds.

Milk Prices

Comparing the first quarter of 2006 to the fourth quarter of 2005, U.S. average milk prices were down to \$13.60/cwt. USDA projects that for the second quarter of 2006, U.S. average all-milk prices will be \$11.75-12.15/cwt.; Class 4b prices will be \$10.80-11.20/cwt; and Class 4a prices will be \$10.80-11.20/cwt.


Utility Cow Prices

Comparing the first quarter of 2006 to the fourth quarter of 2005, average U.S. utility cow prices were down \$0.75/cwt. to a national average of \$48.89/cwt. USDA projects that utility cow prices will average \$54-56 in the second quarter of 2006.


Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook." 

Nevada Industrial Subdivision May Include Milk Bottling Plant

From the Reno Gazette-Journal

A planned industrial subdivision in Yerington, Nevada may include a milk bottling plant that has expressed interest in the subdivision. The one of a kind plant would include 17, high-paying, engineering style-jobs, computerization and a possibility for future expansion. The plant received approval in Storey County; however, a disagreement led the developer to relocate to Yerington. Nearly 20,000 gallons of milk per hour could be processed and most of the plant's product would be shipped to Costco. The hope is to have the bottling plant in by April 2007, with an estimated nine-month construction time. 


Canada Confirms 5th BSE Case

Canada's fifth case of a cow infected with bovine spongiform encephalopathy (BSE) has been confirmed. No meat from the dairy cow entered the food chain. Preliminary investigations conducted prior to receiving final results identified the animal's exact date of birth and birth farm — two critical elements required to trace other animals of interest, as defined by the World Organization for Animal Health. With the confirmed positive results and this information already in hand, the Canadian Food Inspection Agency (CFIA) has immediately undertaken the animal component of its investigation on a priority basis. This animal, a six-year-old dairy cow, developed BSE after the implementation of Canada's feed ban. 

Secretary Johanns Responds to Canada's 5th BSE Case

"With the confirmation of a new BSE case in Canada, Minister Strahl has invited the United States to participate in the epidemiologic investigation. We will dispatch a USDA animal health expert to Canada.

"Information gathered through this investigation will help us to determine what, if any, impact this should have on our beef and live cattle trade with Canada. Based on the information currently available, I do not anticipate a change in the status of our trade.

"It is important to note that Canada's monitoring system identified this animal as one that should be removed from the food and feed supply chain, ensuring food safety continues to be protected." 

Alfalfa Update - from Page 1

Crop Options

It would not be surprising if alfalfa hay acres in 2006 were below 2002 levels. The 1,160,000 acres of alfalfa hay in 2002 were 150,000 higher than 2001. One thing growers now have that many did not have in 2002 are "options." Contract prices on processed tomatoes are much better than 2005. The amount of processed tomato acreage converted to alfalfa hay appears to be less than some thought last fall. While Acala cotton acres were planted to alfalfa this year in the central valley, many more cotton acres could have been converted had it not been for increased planting intentions of Pima cotton. Unlike the Acala market, the Pima market has been good. This is significant because there is tremendous pressure on the upland cotton support program. I believe Pima cotton planting could be a key factor why 2006 alfalfa hay acres in California may not reach 2002 levels. It will be critical for the rain to stop so Pima cotton can be planted by late April.

I mentioned in other articles that alfalfa hay acres have been and will continue to be converted to permanent crops, with almonds probably the largest. The savings in water costs and strong markets, particularly the almond market, are attractive to growers. Some growers will reportedly increase acres of corn for silage in 2006 after the record high market last year. They can also double crop these acres.

Caution Turns to Reality

I mentioned in my December article that caution flags were flying for milk prices in 2006. It is amazing how fast the milk market has deteriorated since December. Unseasonably mild weather in the U.S. this winter pushed milk production up dramatically. In February, U.S. milk production was up 5.9 percent from a year ago. California's production was up 6.6 percent, with milk per cow up 70 pounds from February of last year. The concern is that this is occurring when milk production is usually down due to winter weather. Milk price projections for May during the U.S. "spring flush" are very bearish. March milk production, at least in California, may be tempered by wet, muddy conditions at dairies. The California overbase milk price in February 2006 was \$11.05 cwt, compared to \$13.26 a year ago. Some in the California dairy industry think there could be \$10.00 milk in the coming months, the lowest level since 2003. Some dairy producers are pushing for another CWT dairy herd retirement program. Late summer and fall milk futures prices are 75 cents to \$1.00 per cwt. higher than spring months. Hopefully, milk prices will improve the second half of 2006.

Alfalfa growers may find hay market conditions closer to 2003 than the past two years. As dairy producers move into unprofitable territory, some will probably alter hay purchasing patterns. There may be more short term purchases, which could mean more inventory in growers hands rather than at the dairies. It doesn't mean hay won't sell, but it may take longer to move, particularly lower-to-middle quality. During the period of heavy losses in the spring of 2003 some dairies only



had a 30 day supply of hay on hand. Dairymen will do whatever possible to reduce feed costs, one of their few costs that are not fixed. Last year dairies fed 53 to 55 TDN alfalfa hay to milk cows because supplies of higher test hay were short. This year, some dairies may feed less than 56 TDN hay to milk cows to cut feed costs.

Spike in Corn Prices?

Feed corn prices have been competitive for dairies that have increased concentrate in rations. With U.S. feed corn acres in the March report down 5% from a year ago (lowest since 2001), combined with projections of higher U.S. corn exports in 2006 and rapidly growing demand from ethanol plants, the corn market could be bullish in the months ahead.

U.S. corn exports in January thru mid-March 2006 were 11 percent higher than the same period in 2005. On April 3, the December 2006 corn futures price on the Chicago Board of Trade was \$2.68 per bushel, vs. a May price of \$2.36, and the low this past December of \$1.86 per bushel. There are 98 ethanol plants in the U.S., with 31 more under construction. In 2005, 14% of the U.S. corn crop went to ethanol plants and this will continue to escalate as new plants come on line. Soybean meal prices could be under downward pressure in the coming months with U.S. soybean acre planting intentions up 7 percent from 2005, a new record high.



prices, depending on production nationwide. Planting of crops such as cotton and processed tomatoes were being delayed by rain.

Different Scenarios

While it appeared that alfalfa hay prices would be lower in 2006, rain may change the dynamics in the California hay market. Alfalfa hay prices in the Imperial Valley softened in March but that could change if rain continues in central and northern California. If first cutting new crop alfalfa hay in

central and northern California is over mature or rain damaged, supplies of milk cow quality alfalfa hay could be tight. This could hold the Supreme and Premium quality markets higher than would otherwise be the case.

In the scenario of continued rain, the low-to-middle quality alfalfa hay markets may be bearish and the spread could be wide between the bottom and top of the market.

However, if growers miss a cutting due to rain and production is below normal, the low-to-middle quality alfalfa hay markets may not be as low as one would expect. The price spread between the top and bottom of the hay market may still be wider than the past two years.

Additionally, some hay growers were planning to pull older alfalfa stands after spring cuttings. If this occurs, then production will fall even further.

Conclusion

In spite of depressed milk prices, with 1.78 million cows to feed and given that dairies can only reduce hay in the ration by so much, there will be demand for alfalfa hay. However, dairy hay buyers will be bearish as they enter a period of un-profitability.

The start of the 2006 alfalfa hay season in California is not good news for dairy producers and hay growers in northern and central California. I still believe that hay growers could carry more inventory of alfalfa hay than the past two years as hay buying patterns may change at some dairies.

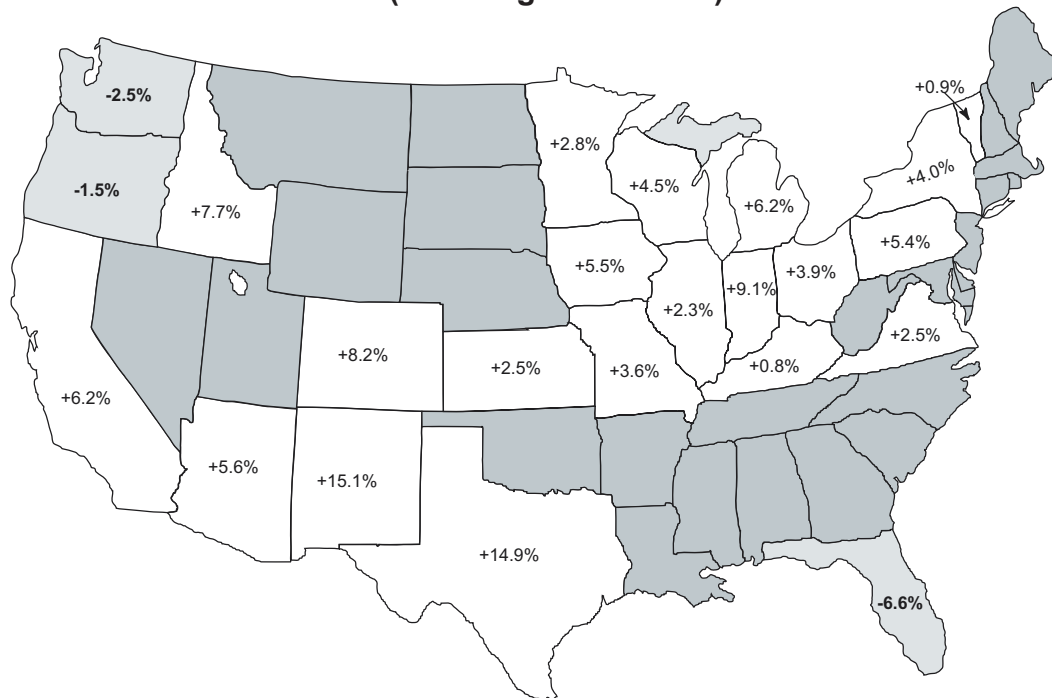
After two profitable years, dairies will hopefully have the capital needed for operation in 2006, including feed purchases. This assumes the milk market is not depressed for an extended period. Small dairies should benefit by reauthorization of the USDA MILC program that runs through September 2007. Larger, more efficient dairies should weather the storm better than less efficient dairies. One thing is certain: dairy hay buyers will have a much different attitude than the past two years.

Weather Factor

Alfalfa hay production and market projections could be out-the-window if it keeps raining in central and northern California. In northern California, there were a record number of days of rain in March. It was still raining in mid-April. If rain continues, not only will alfalfa hay production be negatively impacted but also early supplies of new crop Premium and Supreme quality hay.

New crop alfalfa hay production would normally be underway by April 1 in the southern San Joaquin Valley. However, due to rain, a few growers were green chopping rather than starting a first cutting. A lot of growers were just waiting. This could benefit the Premium and Supreme alfalfa hay markets in the southern desert or at least possibly stabilize prices. It was evident by the demand for new crop alfalfa hay in the southern desert in February and March that dairies were in need of milk cow quality alfalfa hay. While dairy hay buyers will be bearish this spring, they will have less leverage on high quality alfalfa prices if supplies are still short. Another impact of the rain has been muddy conditions at dairies. It could reduce milk production, particularly at dairies without free-stall barns, and may be supportive to milk

March Milk Production in the Top 23 States (% Change from 2005)



For the U.S. overall, comparing March 2006 to March 2005:

- U.S. Milk production during March was up 4.9%
- The number of cows on farms was 9.111 million head, up 110,000 head
- Production per cow averaged 1,750 pounds, 70 pounds more than March 2005
- Twenty of the top twenty-three milk producing states showed an increase in milk production

As reported by USDA
and CDFA (for California)

Milk Production Cost Comparison Summary for California ^{1/} By Month, January 2004-December 2005

Month	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
<i>Dollars per Hundredweight</i>										
January	15.45	15.33	13.82	13.37	12.19	13.14	12.82	13.82	12.98	13.36
February	15.81	15.55	13.61	13.72	12.47	13.50	12.96	13.93	13.06	13.69
March	14.37	14.86	13.16	12.99	12.24	12.70	13.08	13.16	12.77	12.92
April	13.77	14.68	13.27	13.16	12.50	13.03	13.07	12.95	12.91	13.12
May	13.44	13.96	13.23	13.02	12.76	12.99	13.35	12.93	13.04	13.02
June	13.70	14.04	13.45	13.41	13.09	13.02	13.63	13.21	13.32	13.22
July	13.66	14.03	13.03	13.73	12.83	13.40	13.41	13.30	13.01	13.53
August	14.16	14.51	13.00	13.69	12.82	13.46	13.48	13.39	13.03	13.57
September	14.33	15.94	13.44	14.03	13.11	13.73	13.56	13.78	13.34	13.91
October	14.22	16.40	13.43	14.13	13.08	13.69	13.38	14.00	13.29	13.96
November	15.25	16.39	13.91	14.34	13.43	13.84	14.17	13.89	13.77	14.10
December	15.17	16.69	13.71	13.98	13.26	13.66	13.96	13.52	13.59	13.85

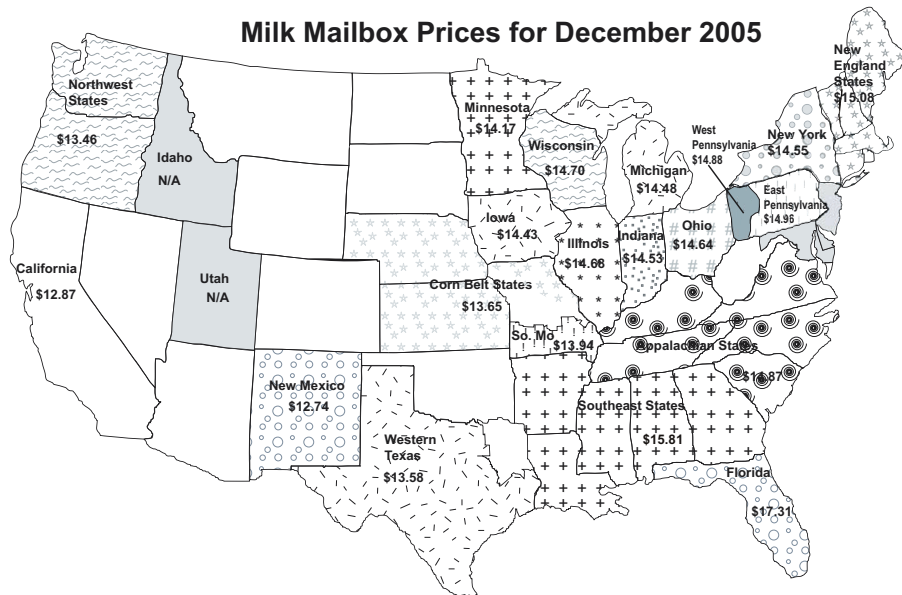
^{1/} Cost Comparison Summary data includes an allowance for management and a return on investment.

Hundredweight Pool Prices

Milk Mailbox Prices

Milk Mailbox Prices in Dollars per Hundredweight

Month	Quota	Overbase		July	August	September	October	November	December	January
September '04	\$15.21	\$13.51	California ¹	\$13.53	\$13.23	\$14.09	\$14.10	\$13.42	\$13.49	\$12.87
October	\$14.81	\$13.11	USDA ²	\$14.62	\$14.65	\$15.16	\$15.38	\$15.09	\$14.73	\$14.43
November	\$15.74	\$14.04	¹ California mailbox price calculated by CDFA.							
December	\$15.74	\$14.04	² All federal milk market order weighted average, as calculated by USDA.							
January '05	\$15.50	\$13.80								
February	\$14.96	\$13.26								
March	\$14.98	\$13.28								
April	\$15.06	\$13.36								
May	\$14.60	\$12.90								
June	\$14.56	\$12.86								
July	\$14.99	\$13.29								
August	\$14.65	\$12.95								
September	\$15.26	\$13.56								
October	\$15.07	\$13.37								
November	\$14.35	\$12.65								
December	\$14.41	\$12.71								
January '06	\$13.91	\$12.21								
February	\$12.75	\$11.05								
March	\$12.19	\$10.49								



In January 2006, mailbox prices for selected reporting areas in Federal milk orders averaged \$14.43 per cwt., \$0.30 less than the figure for the previous month. The component tests of producer milk in January 2006 were: butterfat, 3.77%; protein, 3.07%; and other solids 5.72%. On an individual reporting area basis, mailbox prices decreased in all reporting areas, ranging from \$17.31 in Florida to \$12.74 in New Mexico. In January 2005, the Federal milk order all-area average mailbox price was \$15.89, \$1.46 higher.

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Dairy Marketing Branch:
 Website: www.cdfa.ca.gov/dairy
 Phone (916) 341-5988; Fax (916) 341-6697
 Email: dairy@cdfa.ca.gov

Milk Pricing Information:
 Within California 1-800-503-3490
 Outside California 1-916-442-MILK

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California Department of Food and Agriculture
 A.G. Kawamura, Secretary
 Dairy Marketing Branch
 1220 N Street
 Sacramento, CA 95814



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